United States Government Accountability Office

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Report to the Chairman, Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

June 2012

# MARINE CORPS DEPOT MAINTENANCE

# Budgeting and Management of Carryover Could Be Improved

GAO

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GAO-12-539

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June 2012

# MARINE CORPS DEPOT MAINTENANCE

## Budgeting and Management of Carryover Could Be Improved

GAO Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-539, a report to the Chairman, Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

## Why GAO Did This Study

The Marine Corps DMAG repairs and overhauls weapon systems and support equipment to battle-ready condition for deployed and soon-to-be deployed units. To the extent that DMAG does not complete work at year-end, the work and related funding will be carried over into the next fiscal year. Carryover is the reported dollar value of work that has been ordered and funded by customers but not completed by DMAG at the end of the fiscal year. GAO was asked to determine (1) if DMAG's actual carryover exceeded the allowable amount and actions the Marine Corps is taking to reduce carryover; (2) if budget information on DMAG carryover approximated actual results; (3) if there was growth in carryover during the period of OIF/OEF and the reasons for any such growth; and (4) reasons for recent years' carryover. To address these objectives, GAO (1) reviewed relevant carryover guidance, (2) obtained and analyzed reported carryover and related data for DMAG against requirements, and (3) interviewed DOD, Navy, and Marine Corps officials.

## What GAO Recommends

GAO recommends that DOD improve the budgeting and management of DMAG carryover by comparing budgeted to actual information on carryover and orders and making adjustments to budget estimates as appropriate. DOD concurred with GAO's recommendations and cited related actions planned.

View GAO-12-539. For more information, contact Asif A. Khan at (202) 512-9869 or khana@gao.gov.

## What GAO Found

GAO's analysis of Marine Corps depot maintenance activity group (DMAG) reports showed that from fiscal years 2004 through 2011, reported actual carryover exceeded the allowable amounts in the most recent 6 years of the 8- year period, ranging from $59 million in fiscal year 2007 to $7 million in fiscal year 2011. GAO's analysis also showed that the amounts of carryover exceeding the allowable amounts have declined in each of the past 4 years. These reductions could be attributed to DMAG actions, including implementing production efficiencies that reduced the time required to repair weapon systems.

In contrast, DMAG's budgeted carryover amounts were less than the allowable amounts for all 8 years GAO reviewed. In the most recent 6 years, DMAG's reported actual carryover amounts exceeded budgeted carryover by at least $50 million. GAO's analysis showed this occurred because the Marine Corps underestimated DMAG's new orders every year during this 6-year period from a low of 51 percent to a high of 175 percent.

**Table: Comparison of Budgeted and Reported Actual DMAG Carryover That Was Over or Under the Allowable Amounts (Fiscal Years 2004–2011)**

Dollars in millions

| Fiscal year | Budgeted over (under) allowable | Actual over (under) allowable | Difference |
|---|---|---|---|
| 2004 | ($32) | ($6) | $26 |
| 2005 | (30) | (26) | 4 |
| 2006 | (32) | 21 | 53 |
| 2007 | (19) | 59 | 78 |
| 2008 | (43) | 39 | 82 |
| 2009 | (58) | 38 | 95 |
| 2010 | (74) | 19 | 93 |
| 2011 | (68) | 7 | 75 |

Source: GAO analysis of Marine Corps DMAG budgets.

Note: Dollar amounts do not always add due to rounding.

The reported dollar value of DMAG carryover significantly increased during the initial years of Operation Iraqi Freedom/Operation Enduring Freedom (OIF/OEF) from $49 million in fiscal year 2002 to $271 million in fiscal year 2005. This increase could be primarily attributed to new orders from customers more than tripling over this period. GAO's analysis found that the increase in new orders was the result of higher depot maintenance requirements supporting OIF/OEF. Since fiscal year 2005, reported actual carryover amounts have remained relatively stable, averaging $296 million or 6.4 months of work.

GAO identified three factors that were key to DMAG's carryover in fiscal years 2010 and 2011 including: (1) experiencing unanticipated increases in its workload requirements, (2) starting DMAG work on new orders later in the fiscal year because it was already performing work on other orders, and (3) accepting amendments on existing orders in the last quarter of the fiscal year that increased the scope of work.

# Contents

## Figures



**Abbreviations**

| | |
|---|---|
| DMAG | depot maintenance activity group |
| DOD | Department of Defense |
| HMMWV | High Mobility Multi-purpose Wheeled Vehicles |
| LAV | Light Armored Vehicle |
| MCLC | Marine Corps Logistics Command |
| OIF/OEF | Operation Iraqi Freedom/Operation Enduring Freedom |
| SMC | Supply Management Center |

United States Government Accountability Office
Washington, DC 20548

June 19, 2012

The Honorable Claire McCaskill
Chairman
Subcommittee on Readiness
and Management Support
Committee on Armed Services
United States Senate

Dear Madam Chairman:

The Marine Corps depot maintenance activity group (DMAG) is part of the Navy Working Capital Fund. It provides for the repair and overhaul of weapon systems and support equipment to battle-ready condition for deployed and soon-to-be deployed Marine Corps units, including repairing and overhauling such Marine Corps ground combat vehicles and equipment as the High Mobility Multi-purpose Wheeled Vehicles (HMMWV) and Assault Amphibious Vehicles.

DMAG operates two maintenance centers[1] under the working capital fund concept, under which customers (such as the military services) are to be charged for the anticipated full cost of goods and services provided. To the extent that DMAG does not complete work at year-end, the work and related funding are to be carried into the next fiscal year. The term "carryover" refers to the reported dollar value of DMAG work that has been ordered and funded (obligated) by customers (such as the Marine Corps) but not completed by DMAG at the end of the fiscal year. The congressional defense committees have recognized that some carryover is appropriate to facilitate a smooth flow of work during the transition from one fiscal year to the next. However, past congressional defense committee reports have raised concerns that the level of carryover in military service working capital funds may be more than is needed. Excessive amounts of carryover financed with customer appropriations may result in future requests being subject to reductions by the Department of Defense (DOD) and the congressional defense committees during the budget review process.

[1]The two maintenance centers are the Albany maintenance center, Albany, Georgia; and the Barstow maintenance center, Barstow, California.

In response to your request, this report provides the results of our assessment to determine (1) if DMAG reported actual carryover exceeded the allowable amount of carryover from fiscal years 2004 through 2011 and any actions the Marine Corps is taking to reduce carryover; (2) if budget information on DMAG carryover from fiscal years 2004 through 2011 approximated reported actual results; (3) if there was growth in DMAG carryover during the period of Operation Iraqi Freedom/Operation Enduring Freedom (OIF/OEF)[2] and the reasons for any such growth; and (4) the reasons for the fiscal years 2010 and 2011 carryover.

To address the first and second objectives, we obtained and analyzed DMAG reports that contained information on budgeted and reported actual carryover against the allowable amount of carryover for fiscal years 2004 through 2011. We analyzed carryover since fiscal year 2004 because prior to fiscal year 2004 DOD had a different policy for determining the allowable amount of carryover. We met with responsible officials from the Navy and Marine Corps to determine the reasons for significant variances between (1) reported actual carryover and the allowable amount or (2) budgeted and reported actual carryover. We also met with these officials to discuss the actions the Marine Corps has and is taking to reduce the amount of carryover.

To address the third objective, we analyzed reported order, revenue, and carryover amounts and months of carryover from fiscal years 1998 through 2011 to determine the extent to which OIF/OEF impacted DMAG workload and carryover. We selected the period from fiscal years 1998 through 2011 to highlight any changes in reported actual carryover information from the period before and during OIF/OEF. We reviewed and analyzed Marine Corps documentation, including the DMAG budgets, to determine the reasons for the growth in carryover.

To address the fourth objective, we met with responsible officials from the Navy and Marine Corps to identify contributing factors that led to the

[2]Since the September 11, 2001, terrorist attacks, the Department of Defense has been engaged in overseas military operations around the world. These operations include Operation Enduring Freedom that takes place principally in and around Afghanistan, but also covers additional operations in the Horn of Africa, the Philippines, and elsewhere, and Operation Iraqi Freedom that focuses principally on Iraq. Customers have issued orders to DMAG since operations began for the overhaul and repair of military equipment in support of these operations.

carryover. We also performed walkthroughs of the Albany and Barstow maintenance centers' operations and discussed with officials reasons for fiscal years 2010 and 2011 carryover. In order to more fully understand the reasons for carryover at the maintenance centers, we obtained and analyzed 60 orders (30 orders for fiscal year 2010 and 30 orders for fiscal year 2011) that had the largest dollar amount of carryover. Carryover amounts associated with these orders represented 49 percent and 68 percent of DMAG's total carryover for fiscal years 2010 and 2011, respectively. We selected 60 orders because they were the largest and most recent orders at the time of our audit. We reviewed the orders and related amendments and discussed the information in these documents with Marine Corps and DMAG maintenance center officials at Albany and Barstow to determine the reasons for the carryover. Further details on our scope and methodology are provided in appendix I.

We conducted this performance audit from July 2011 through June 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We requested comments on a draft of this report from the Secretary of Defense or his designee. Written comments from the Office of the Under Secretary of Defense (Comptroller) are reprinted in appendix II.

## Background

The Marine Corps Logistics Command (MCLC) (Programs and Resources Department), in conjunction with the Office of the Marine Corps Deputy Commandant (Programs and Resources) are responsible for developing DMAG's budget. The budget is then submitted to the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) for review and inclusion in the Navy Working Capital Fund budget submission to Congress.

DMAG relies on sales revenue rather than direct appropriations to finance its continuing operations. DMAG is intended to (1) generate sufficient resources to cover the full costs of its operations and (2) operate on a break-even basis over time—that is, neither make a gain nor incur a loss. Customers, such as the Marine Corps, use appropriated funds, (primarily operations and maintenance and to a lesser extent procurement appropriations), to finance orders placed with DMAG. DMAG repairs, overhauls, and modifies all types of ground combat and combat support

equipment, including such major-end items as the HMMWV, Medium Tactical Vehicle Replacement, Assault Amphibious Vehicle, and the Light Armored Vehicle (LAV).

## Carryover and Its Use

DOD uses the term “carryover” to refer to the reported dollar value of working capital fund activities work that has been ordered and funded (obligated) by customers but not completed by the end of the fiscal year. As such, carryover consists of both the unfinished portion of working capital fund activities work started but not completed, as well as work that was accepted, but that has not yet begun. Both DOD and congressional defense committees have agreed that some carryover is appropriate at the end of the fiscal year in order for working capital funds to operate efficiently and effectively. For example, if customers do not receive new appropriations at the beginning of the fiscal year, carryover is necessary to ensure that working capital fund activities (1) have enough work to continue operations in the new fiscal year and (2) retain the appropriate number of personnel with sufficient skill sets to perform depot maintenance work. Too little carryover could result in some personnel not having work to perform at the beginning of the fiscal year. On the other hand, too much carryover could result in an activity group receiving funds from customers in one fiscal year but not performing the work until well into the next fiscal year. By limiting the amount of carryover, DOD can use its resources in the most efficient and effective manner and minimize the backlog of work and “banking” of related funding for work and programs to be performed in subsequent years.

## DOD’s Carryover Policy

DOD’s carryover policy is provided in DOD Financial Management Regulation 7000.14-R, volume 2B, chapter 9. Under the policy, the allowable amount of carryover each year is based on the amount of new orders received in a given year and the outlay rate of the customers’ appropriations financing the work.[3] For example, DMAG received about $462 million in new orders funded with the Marine Corps operation and maintenance appropriation—one of several appropriations funding orders DMAG received in fiscal year 2010. The DOD outlay rate for this appropriation was 57.5 percent. Therefore, the amount of funds DMAG

[3]The outlay rate for appropriations is contained in the DOD Financial Summary Tables, which are published each year. The outlay rate figures may vary from year to year.

was allowed to carry over into fiscal year 2011 was $196 million ($462 million multiplied by 42.5 percent, which represents 1 minus the 57.5 percent outlay rate for the operation and maintenance, Marine Corps appropriation). The DOD carryover policy provides that the work on the fiscal year 2010 orders is expected to be completed by the end of fiscal year 2011. According to the DOD regulation, this carryover metric allows for an analytical-based approach that holds working capital fund activities to the same standard as general fund execution and allows for meaningful budget execution analysis.

In accordance with the DOD Financial Management Regulation,[4] (1) nonfederal orders, (2) non-DOD orders, (3) foreign military sales, (4) work related to base realignment and closure, and (5) work-in-progress are to be excluded from the carryover calculation. The reported actual carryover (net of exclusions) is then compared to the amount of allowable carryover using the above-described outlay-rate method to determine whether the actual carryover amount is over or under the allowable carryover amount.

## DMAG Reported Actual Carryover Exceeded the Allowable Amount Since Fiscal Year 2006, but Actions Are Under Way to Reduce Carryover

Our analysis of DMAG reports showed that from fiscal year 2004 through fiscal year 2011, reported actual carryover exceeded the allowable amounts in 6 of the 8 years. During the most recent 6-year period, the reported amounts of actual carryover exceeded the allowable amounts each year, ranging from a high of $59 million in fiscal year 2007 to a low of $7 million in fiscal year 2011. Our analysis also showed that the extent to which DMAG carryover exceeded the allowable amounts declined each year since fiscal year 2007. Table 1 shows the reported DMAG actual carryover, allowable carryover, and the amount over (or under) the allowable carryover for fiscal years 2004 through 2011.

[4] See DOD Financial Management Regulation 7000.14-R, vol. 2B, ch. 9, *Defense Working Capital Funds Activity Group Analysis*, § 090204(c)(3) (June 2010), for orders excluded from the carryover calculation.

**Table 1: Comparison of DMAG Reported Actual Carryover and Allowable Carryover (Fiscal Years 2004–2011)**

Dollars in millions

| Fiscal year | Actual carryover | Allowable carryover | Actual over (under) allowable amount |
|---|---|---|---|
| 2004 | $166 | $171 | ($6) |
| 2005 | 263 | 288 | (26) |
| 2006 | 274 | 254 | 21 |
| 2007 | 270 | 211 | 59 |
| 2008 | 324 | 284 | 39 |
| 2009 | 281 | 244 | 38 |
| 2010 | 315 | 296 | 19 |
| 2011 | 281 | 274 | 7 |

Source: GAO analysis of DMAG data.

Note: Actual over (under) allowable dollar amounts do not always add due to rounding.

According to MCLC (Programs and Resources Department) officials, DMAG has implemented actions to reduce carryover, and actions taken have contributed to recent declines in the carryover amounts that exceeded the allowable amounts. Specifically, these officials cited the following four actions:

- Beginning in the second quarter of each fiscal year, MCLC evaluates new orders for their impact on the amount of workload that will carry over to the next fiscal year that potentially could exceed the allowable amount. Considering the impact that new orders have on carryover, in 2008 MCLC established criteria for the acceptance of new orders including (1) determining if the customer order supports OIF/OEF workload and if there are viable alternatives to the scope of the order and/or source of repair for which the customer is able to mitigate, and (2) determining whether there are alternatives that DMAG can use to avoid carrying over workload into the new fiscal year (i.e., increase overtime, augment personnel, and/or subcontract portions of the workload).

- Beginning in 2008, DMAG formed a working group to engage its customers and the Defense Finance and Accounting Service to reduce times for closing completed orders. In addition, DMAG closed out orders with small remaining balances that reduced the unobligated balances on the orders. For example, DMAG has earned an additional $2.3 million in revenue in fiscal year 2011 due to an August 2011

change to the Defense Industrial Financial Management System to automatically bill to revenue the residual dollar amounts left on customer orders. This reduced the customers' outstanding unliquidated obligation balances to zero—thus eliminating $2.3 million in fiscal year 2011 that would carry over to the next fiscal year.

- Twice annually, DMAG formally meets with its major customers to validate the current and upcoming fiscal year workload requirements and modify plans at the MCLC maintenance centers to address current bona fide need of the orders. Beginning in the 2007-2008 time frame, MCLC began developing mitigating strategies for controlling or reducing carryover due to the elevated carryover levels (i.e., schedule realignments or alternate sources of repair or supply).

- MCLC's two maintenance centers have implemented production and workflow efficiencies, including new concepts of operations intended to streamline operations, that are expected to reduce repair cycle times for damaged weapon systems. For example, efforts to improve the efficiency of production processes for a variant of the HMMWV at the Barstow maintenance center reduced repair cycle time by 45 days from 86 days in fiscal year 2010 to 41 days in fiscal year 2011. Reduced repair cycle times allow the centers to perform more work in the same period of time, generating more revenue by the centers and thus reducing carryover.

## Marine Corps Underestimated Carryover in Its Budgets

DMAG budget estimates for carryover were consistently less than allowable amounts each year from fiscal year 2004 through fiscal year 2011. However, in contrast, for the most recent 6 years, DMAG's actual reported amount of carryover exceeded budgeted carryover amounts by at least $50 million each year. Our analysis showed the actual amounts of reported carryover exceeded budgeted amounts primarily because the Marine Corps underestimated DMAG's new orders received from customers. Reliable budget information on carryover is critical because decision makers use this information when reviewing DMAG's budgets. Table 2 summarizes the dollar amounts of budgeted and actual DMAG carryover that was over or under the allowable dollar amounts and the difference as shown in DMAG budgets for fiscal years 2004 through 2011.

**Table 2: Comparison of Budgeted and Actual DMAG Carryover That Was Over or Under the Allowable Amounts (Fiscal Years 2004–2011)**

Dollars in millions

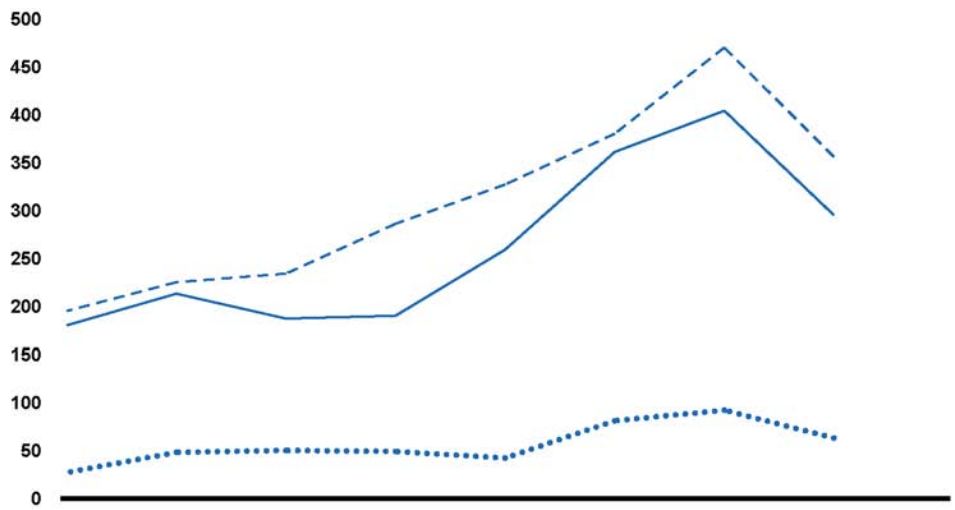
| Fiscal year | Budgeted over (under) allowable amount | Actual over (under) allowable amount | Difference |
|---|---|---|---|
| 2004 | ($32) | ($6) | $26 |
| 2005 | (30) | (26) | 4 |
| 2006 | (32) | 21 | 53 |
| 2007 | (19) | 59 | 78 |
| 2008 | (43) | 39 | 82 |
| 2009 | (58) | 38 | 95 |
| 2010 | (74) | 19 | 93 |
| 2011 | (68) | 7 | 75 |

Source: GAO analysis of DMAG budgets.

Note: Dollar amounts do not always add due to rounding.

Our analysis of DMAG budget documents showed that for fiscal years 2004 through 2011, the Marine Corps budgeted DMAG's revenue (work to be performed) to be more than the budgeted dollar value of new orders to be received each year. Specifically, during the 8-year period, the DMAG budgets showed revenue would be approximately $2.5 billion. This revenue estimate was almost $400 million more than the budgeted $2.1 billion for expected new orders. As a result, planned carryover would remain relatively stable and under $100 million. Figure 1 shows the DMAG budgeted new orders, revenue, and carryover amounts for fiscal years 2004 through 2011.

**Figure 1: DMAG Budgeted New Orders, Revenue, and Carryover (Fiscal Years 2004–2011)**



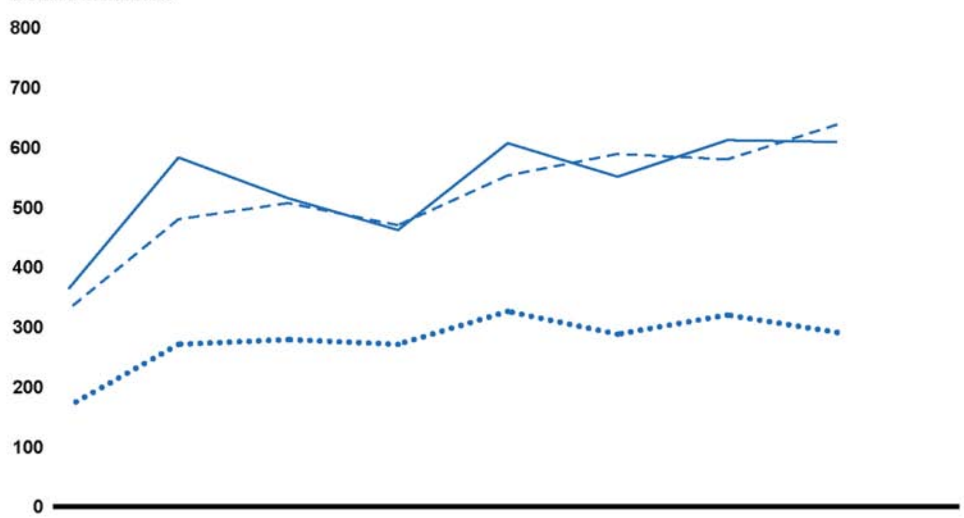

| Fiscal year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
|---|---|---|---|---|---|---|---|---|---|
| New Orders (Budgeted) | $180 | $213 | $187 | $190 | $259 | $361 | $404 | $295 | $2,088 |
| Revenue (Budgeted) | $195 | $225 | $234 | $286 | $327 | $380 | $470 | $356 | $2,473 |
| Carryover (Budgeted) | $27 | $48 | $50 | $49 | $42 | $81 | $92 | $63 | |

Source: GAO analysis of DMAG budgets.

Note: Dollar amounts do not always add due to rounding.

Although the Marine Corps budgeted for DMAG's revenue to exceed new orders and carryover to remain relatively stable as shown in figure 1, subsequent DMAG reporting showed that for fiscal years 2004 through 2011, it actually received more new orders than revenue as shown in figure 2. In fact, for 5 of the 8 years, reported actual new orders received exceeded actual revenue. For the 8-year period, actual reported revenue was about $4.1 billion or $156 million less than the $4.3 billion in actual reported new orders received. As a result, reported actual carryover increased from a low of $168 million in fiscal year 2004 to a high of $326 million in fiscal year 2008 during the 8-year period. Figure 2 shows the actual new orders, revenue, and carryover amounts shown in DMAG budgets for fiscal years 2004 through 2011.

Figure 2: DMAG Actual New Orders, Revenue, and Carryover (as Shown in DMAG Budgets for Fiscal Years 2004–2011)




| Fiscal year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
|---|---|---|---|---|---|---|---|---|---|
| New Orders (Actual) | $364 | $583 | $515 | $462 | $607 | $551 | $612 | $609 | **$4,303** |
| Revenue (Actual) | $330 | $480 | $507 | $470 | $553 | $589 | $580 | $638 | **$4,147** |
| Carryover (Actual) | $168 | $271 | $279 | $271 | $326 | $288 | $320 | $291 | |

Source: GAO analysis of DMAG budgets.

Our further analysis of DMAG budget documents showed that the Marine Corps significantly underestimated the amount of new orders to be received from DMAG's customers. As shown in figure 1, from fiscal years 2004 through 2011, DMAG budgeted to receive about $2.1 billion in new orders, but as shown in figure 2, subsequent DMAG records showed that it actually received about $4.3 billion in new orders. As a result, DMAG's budget underestimated new orders received from customers by a cumulative total of about $2.2 billion over the 8-year period we reviewed. Furthermore, DMAG records showed that actual new orders received from customers exceeded budgeted orders ranging from 51 percent in fiscal year 2010 to 175 percent in fiscal year 2006 over the 8-year period. Table 3 shows a comparison between budgeted and actual new orders for fiscal years 2004 through 2011 based on DMAG budget documentation.

**Table 3: DMAG Budgeted New Orders Compared to Actual New Orders (Fiscal Years 2004–2011)**

Dollars in millions

| Fiscal year | New orders budget | New orders actual | Percent increase |
|---|---|---|---|
| 2004 | $180 | $364 | 102% |
| 2005 | 213 | 583 | 174 |
| 2006 | 187 | 515 | 175 |
| 2007 | 190 | 462 | 143 |
| 2008 | 259 | 607 | 134 |
| 2009 | 361 | 551 | 53 |
| 2010 | 404 | 612 | 51 |
| 2011 | 295 | 609 | 106 |

Source: GAO analysis of DMAG budgets.

According to MCLC (Programs and Resources Department) officials, the Marine Corps formulates its budgets for new orders based on documented customer requirements—that is, for which the customers provide DMAG with letters of intent. Letters of intent documents the dollar amount of work the customers intend to provide to DMAG for various weapon systems and equipment repair and overhaul. These estimated amounts are used by the Marine Corps for forecasting DMAG workload as well as for budgeting.

In September 2009, the Marine Corps DMAG budget analyst from the Office of the Under Secretary of Defense (Comptroller) stated that DMAG needed more reliable information on budgeted new orders. In information exchanges between the office's budget analyst and the Marine Corps, the analyst suggested that the Marine Corps increase fiscal year 2011 budgeted new orders to approximate the fiscal year 2009 levels assuming the new orders are still expected to be near the fiscal year 2009 level, even if DMAG did not have letters of intent to support this workload. However, the Marine Corps did not increase the budgeted new order amount because it was not documented in letters of intent. As shown in table 3, DMAG's actual new orders for fiscal year 2011 exceeded budgeted new orders by $314 million or 106 percent.

In developing the DMAG budgets for fiscal years 2004 through 2011, the Marine Corps did not consider recent years' trends and consistently underestimated (1) the amounts of carryover that would exceed the allowable amounts and (2) the amounts of new orders to be received from customers. Specifically, the Marine Corps did not compare budgeted to

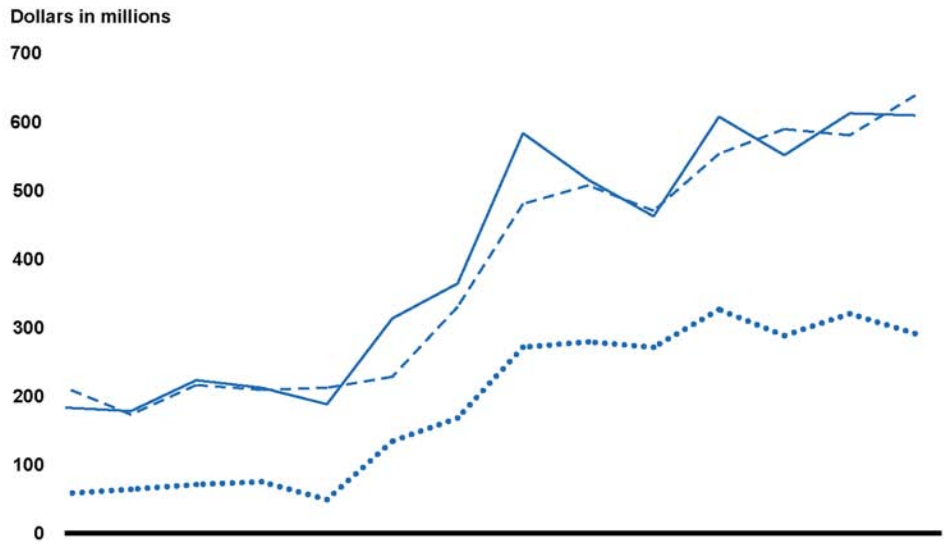
actual data and consider this data in determining whether adjustments should be made to the estimated amounts of DMAG carryover and order data in its future budgets. Until the Marine Corps considers all future work (including work for which DMAG has not yet received letters of intent) in developing its budgets, its (1) budgeted amounts of carryover that are over or under the allowable amounts and (2) budgeted new orders will continue to be of limited value for managerial decision making.

## DMAG Carryover Grew Significantly as a Result of OIF/OEF

Our analysis of documents and interviews with Marine Corps officials disclosed that DMAG carryover significantly increased from $49 million in fiscal year 2002 to $271 million in fiscal year 2005. We determined this increase was primarily because new orders from DMAG customers more than tripled from $188 million in fiscal year 2002 to $583 million in fiscal year 2005. Available Marine Corps documentation, including DMAG's budgets, showed that new orders increased to facilitate higher depot maintenance requirements in support of OIF/OEF operations. Since fiscal year 2005, available records show carryover remained at about the fiscal year 2005 level—averaging 6.4 months of workload. To assess the extent of growth in carryover due to OIF/OEF, we analyzed data for the period before and during the period of OIF/OEF operations.[5] Figure 3 depicts DMAG actual new orders, revenue, carryover, and months of carryover beginning in fiscal year 1998 for a 14-year period based on available Marine Corps documentation.

[5]For the purposes of this report, peacetime levels are defined as the average new orders, revenue, and carryover reported by DMAG for fiscal years 1998 through 2002. The fiscal year 2005 DMAG budget that contains fiscal year 2003 actual data was the first year the DMAG reported increased workload in response to OIF/OEF.

Figure 3: DMAG Reported Actual New Orders, Revenue, Carryover, and Months of Carryover (Fiscal Years 1998–2011)




| Fiscal year | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| New Orders | $183 | $178 | $223 | $212 | $188 | $313 | $364 | $583 | $515 | $462 | $607 | $551 | $612 | $609 |
| Revenue | $212 | $173 | $216 | $209 | $212 | $228 | $330 | $480 | $507 | $470 | $553 | $589 | $580 | $638 |
| Carryover | $58 | $64 | $71 | $75 | $49 | $134 | $168 | $271 | $279 | $271 | $326 | $288 | $320 | $291 |
| **Months of carryover** | **3.3** | **4.4** | **3.9** | **4.3** | **2.8** | **7.0** | **6.1** | **6.8** | **6.6** | **6.9** | **7.1** | **5.9** | **6.6** | **5.5** |

Source: GAO analysis of DMAG budgets.

To illustrate the impact that changes in new orders and revenue had on carryover during the 14-year period, table 4 summarizes the data into three segments aligned with workload supporting peacetime operations (fiscal years 1998 through 2002), workload supporting the initial years of OIF/OEF (fiscal years 2003 through 2005), and workload supporting continuing elevated military operations under OIF/OEF (fiscal years 2006 through 2011).

**Table 4: Comparison of DMAG Financial Management Information during Pre-, Early Buildup, and Continuing OIF/OEF**

Dollars in millions

| | Pre-OIF/OEF Fiscal years 1998-2002 | Early OIF/OEF Fiscal years 2003-2005 | Continuing OIF/OEF Fiscal years 2006-2011 |
|---|---|---|---|
| Cumulative new orders | $983 | $1,261 | $3,356 |
| Cumulative revenue | $1,022 | $1,038 | $3,337 |
| Cumulative difference | ($38) | $223 | $19 |
| Average dollar amount of carryover | $63 | $191 | $296 |
| Average months of carryover | 3.7 | 6.6 | 6.4 |

Source: GAO analysis of DMAG budget data.

Note: Dollar amounts do not always add due to rounding.

For fiscal years 1998 through 2002, DMAG was operating at levels to support peacetime workload. Specifically, during the 5-year period, the amount of workload received (new orders) from DMAG customers ($983 million) roughly equaled the amount of work performed (revenue) by DMAG ($1,022 million). DMAG carryover remained under $75 million and represented on average about 3.7 months of workload.

Beginning in fiscal year 2003, depot maintenance workload increased in response to the buildup in deployed weapon systems and equipment and their associated increase in equipment wear and tear in support of OIF/OEF. While revenue generated from depot maintenance operations more than doubled, from $212 million in fiscal year 2002 to $480 million in fiscal year 2005, reported new orders more than tripled, from $188 million in fiscal year 2002 to $583 million in fiscal year 2005. Over the period, reported new orders exceeded revenue by about $223 million and carryover increased from $49 million at the end of fiscal year 2002 to $271 million at the end of fiscal year 2005—representing about 6.6 months of workload. The maintenance centers, according to MCLC (Programs and Resources Department) officials, experienced personnel and parts shortages during the early years of the buildup in OIF/OEF military operations overseas because (1) in some cases, the centers did not have sufficient numbers of personnel with the required skill sets needed to address the rapidly increasing workload and (2) the DOD supply system and supporting private sector commercial production did not keep pace with the increased spare parts and raw material requirements that were needed by the maintenance centers, such as

obtaining steel needed to satisfy an emerging requirement to armor critical warfighting equipment.

MCLC (Programs and Resources Department) officials informed us that by fiscal year 2007, the maintenance centers resolved much of their personnel and parts shortages that resulted from the increased new orders supporting OIF/OEF. To resolve personnel and supply shortages, these officials told us that the centers employed multiple strategies such as (1) working with local colleges to obtain skilled employees and implementing personnel strategies that allowed DMAG the flexibility to expand or contract personnel within 48 to 72 hours using a combination of full-time, temporary, and contractor personnel and (2) working with the Defense Logistics Agency to eliminate or significantly reduce spare parts shortages. Our review confirmed that personnel and parts shortages, including raw materials issues, are no longer a major contributing factor to increased carryover amounts.

According to MCLC (Programs and Resources Department) officials, DMAG resolved much of its personnel and spare parts shortages. However, our analysis showed that, since fiscal year 2005, DMAG had not further reduced the carryover resulting from the increases in new orders between fiscal years 2003 through 2005. As shown in table 4, the DMAG carryover averaged $296 million and represented about 6.4 months of workload since fiscal year 2005. Further, for fiscal years 2006 through 2011, the amount of revenue generated by the centers' operations ($3,337 million) have roughly equaled the new orders accepted by the centers ($3,356 million)—a difference over the 6-year period of only $19 million.

## Primary Reasons for Carryover at the End of Fiscal Years 2010 and 2011

Our analysis of 60 orders (and related amendments) with the largest amounts of carryover for fiscal years 2010 and 2011 (the most recent data available) identified three primary reasons for carryover: (1) unanticipated increases in quantities or workload requirements to customer orders, (2) starting work on new orders later in the fiscal year because the centers had not yet completed work on other existing orders from the current and prior fiscal year, and (3) accepting amendments to existing orders in the last quarter of the fiscal year that increased order quantities or the scope of work. Table 5 provides summary information on the primary reasons for DMAG carryover based on our review of 60 large-dollar carryover orders for the most recent 2-year period—30 each year.

Table 5: Summary of Primary Reasons for DMAG Carryover by Number of Orders in Each Category (Fiscal Years 2010–2011)

| Carryover reason | Number of orders impacted: Fiscal year 2010 | Number of orders impacted: Fiscal year 2011 | Total |
|---|---|---|---|
| Unanticipated increases in quantities or workload requirements to customer orders | 22 | 23 | **45** |
| Work on new orders began later in fiscal year to allow time for maintenance centers to perform work on other current and prior year orders | 15 | 12 | **27** |
| Amendments accepted in the last quarter of fiscal year that increased order quantities or expanded the scope of work on existing quantities ordered | 18 | 7 | **25** |

Source: GAO analysis of DMAG fiscal years 2010 and 2011 orders and amendments with fiscal year-end carryover and interviews with Marine Corps maintenance center Albany and Barstow officials.

Note: The table does not add to 30 each year or 60 in total because many orders fell in multiple categories.

## Unanticipated Increases in Quantities or Workload Requirements to Customer Orders

Accurately forecasting the scope of work on orders is essential for ensuring that the maintenance centers operate efficiently and complete work on orders as scheduled. However, we found that for 45 of the 60 orders for fiscal years 2010 and 2011 that we reviewed, customers increased quantities or added unanticipated workload requirements throughout the fiscal year that delayed completing work on existing orders. MCLC (Programs and Resources Department) officials cited unplanned workload requirements as a primary driver for carryover. These officials stated that (1) while the maintenance centers do not drive workload requirements, the maintenance centers must respond to the customers' bona fide needs for the repair of the warfighters' equipment to support emergent requirements in the field, and (2) since OIF/OEF operations began, DMAG began to accept all orders (and related amendments) associated with those operations where viable alternative sources of repair could not be found, even though accepting such orders may contribute to "over the allowable" carryover. For example, the DMAG fiscal year 2010 budget cited the acceptance of unplanned workload by the maintenance centers to repair war-ravaged equipment and weapon systems returning from overseas contingency operations as the reason for the maintenance centers exceeding the allowable carryover in fiscal year 2008. Below are two examples in which unplanned workload requirements affected carryover.

- In November 2009, MCLC accepted an order totaling $2.1 million that was financed with fiscal year 2010 operation and maintenance, Marine Corps appropriated funds to perform depot maintenance work on five Light Armored Vehicles (LAV) at the Barstow maintenance center. The order was amended three times in fiscal year 2010 to

increase quantities to 28 vehicles, increase funding to $11.7 million, and extend the work completion date into fiscal year 2011. The center carried over $7.9 million of the $11.7 million order principally because many of the vehicles had excessive corrosion in the hull floor plate and side board areas that were much greater than anticipated and which required additional welding and plate replacement. Barstow officials said that the additional welding, plate replacement, and extensive corrosion repair caused the repair cycle time to be extended beyond the timelines originally anticipated to complete the work and caused work delays on other variants of LAVs concurrently being worked on at the center. The center completed work on the order in September 2011.

- In December 2010, MCLC accepted an order totaling $1.4 million that was financed with fiscal year 2011 operation and maintenance, Marine Corps appropriated funds to perform depot maintenance work (inspect and repair only as necessary) on 18 rough terrain forklifts at the Albany maintenance center. The order was amended nine times in fiscal year 2011 to increase the quantity to 118 forklifts, increase the total amount of the order to $9.4 million, and extend the work completion date into fiscal year 2012. According to center officials, the vehicles required more repair work than was initially planned in terms of cost and repair cycle time, which necessitated a change in the scope of the work. This change was reflected in one of the amendments showing that the statement of work changed from an "inspect and repair only as necessary" requirement to a "rebuild" requirement, which required a more comprehensive type and scope of depot maintenance work to be performed and required additional funds to finance the work. Because of the change to increase workload requirements, the center carried over $4.4 million of the $9.4 million into fiscal year 2012.

## Work on New Orders Began Later in Fiscal Year because Work on Existing Orders Was Not Completed

Completing work on prior-year orders and beginning work on new orders for the current year early in the fiscal year is critical to maintaining low carryover balances. Our review of 60 orders and amendments for fiscal years 2010 and 2011 found that, for 27 orders reviewed, work was delayed on new orders because the maintenance centers had not yet completed work on other current- and prior-year orders. Below are two examples of orders that we reviewed.

- In November 2009, MCLC accepted an order totaling $2.4 million that was financed with fiscal year 2010 funds appropriated for Marine Corps operation and maintenance to perform depot maintenance work

on 27 High Mobility Multi-purpose Wheeled Vehicles (HMMWV) at the Albany maintenance center. The order was amended four times from March 2010 to September 2010 to increase quantities to 45 HMMWVs, increase funding to $4.7 million, and extend the work completion date into fiscal year 2011. The center carried over almost the entire amount of the $4.7 million order because the center was working on other fiscal year 2010 HMMWVs. Due to customer requirements, as well as capability, utilization, and production constraints, the center could not begin work on this order until the center completed work on the other orders. The center did not begin work on this order until September 17, 2010—10 months after the initial order was accepted, and did not complete work on the order until August 2011—near the end of fiscal year 2011.

- In November 2010, MCLC accepted an order totaling $1.5 million that was financed with fiscal year 2011 funds appropriated for Marine Corps operation and maintenance to perform depot maintenance work on three LAVs at the Barstow maintenance center. Because the Barstow maintenance center was still performing depot maintenance work on a fiscal year 2010 LAV order for the same vehicle configuration, the Marine Corps Supply Management Center (SMC) (customer) issued an amendment in February 2011 to reduce quantities to zero and deobligate the entire amount on the fiscal year 2011 order. Our analysis of order documentation showed that the customer deobligated the funds because the Barstow maintenance center did not require the funds at that time, as the center was still performing work on the fiscal year 2010 LAV order. Beginning in March 2011, the MCLC accepted amendments to increase quantities on the fiscal year 2011 order to 20, increase funding to $10.5 million, and changed the scope of the work to include the replacement of missing communications equipment. Barstow maintenance center began performing depot maintenance work on this fiscal year 2011 order in April 2011—7 months into the fiscal year and 5 months after the order was originally placed. Because the Barstow center was working the fiscal year 2010 order, work was delayed on the fiscal year 2011 LAV order causing the center to carry over $3.8 million into fiscal year 2012.

## Amendments Accepted in the Last Quarter of the Fiscal Year

The timing of the receipt and acceptance of orders from customers affect the amount of carryover at year-end. Our examination of 60 orders for fiscal years 2010 and 2011 determined that, in 25 cases we reviewed, amendments to orders accepted in the last quarter of the fiscal year contributed to carryover. These amendments either increased order quantities or expanded the scope of work on existing orders with the maintenance centers. DOD Financial Management Regulation[6] provides that depots cannot perform work until they receive and accept orders from customers. According to MCLC (Programs and Resources Department) officials, since some of these orders or amendments to these orders were planned and funded in the fourth quarter, DMAG could not start work until it received and accepted amended orders as specified in the DOD regulation.

In June 2006, we reported that carryover is greatly affected by orders received late in the fiscal year.[7] As a result, almost all orders accepted late in the fiscal year increase the amount of carryover. Further, we reported that the most frequent reason DOD activity groups accepted orders at the end of the fiscal year was because funds were provided to the customers late in the fiscal year to finance existing requirements. DOD customers stated that it is common for military services to provide funds to them late in the fiscal year after the military services review their programs to identify funds that will not be obligated by year-end. When these funds are identified, the military services realign the funds to programs that can use them. These funds are then used to finance orders placed with working capital fund activities at year-end. Our discussion with SMC officials—the largest DMAG customer—confirmed that the information reported in June 2006 was also applicable for fiscal years 2010 and 2011. The officials stated that there is a significant advantage to using unobligated funds at fiscal year-end that are set to expire on September 30 because the maintenance centers can perform more work to satisfy its customers' unfunded requirements. Two examples we identified of amended orders received late in the fiscal year that increased carryover are presented below.

[6]See DOD Financial Management Regulation 7000.14-R, vol.11B, ch.11, *Reimbursements and Revenue Recognition*, § 110103 (Oct. 2002).

[7]GAO, *Defense Working Capital Fund: Military Services Did Not Calculate and Report Carryover Amounts Correctly*, GAO-06-530 (Washington D.C.: June 27, 2006).

- In fiscal year 2010, MCLC accepted an order and amendments to the order totaling $31.2 million that was financed with fiscal year 2010 operation and maintenance, Marine Corps appropriated funds to inspect and repair only as necessary 389 HMMWVs at the Albany maintenance center. The order was amended eight times in fiscal year 2010 to increase quantities from 25 vehicles to 389 vehicles, increase funding from $2.0 million to $31.2 million, and extend the work completion date into fiscal year 2011. During the fiscal year, the Albany center completed about 90 percent of the work on the order through the seventh amendment. However, on September 30, 2010—the last day of the fiscal year—MCLC received and accepted an amendment to the order increasing funding by $4.9 million and the quantity by 61 vehicles. The funding cited on this order was set to expire that same day. The entire amount of this amendment carried over into fiscal year 2011. According to a SMC official, the amendment was issued to the Albany maintenance center on September 30, 2010, because funding on a HMMWV order with the Barstow maintenance center was identified by the center as excess to requirements 2 days before the end of the fiscal year. The funding was set to expire at the end of the fiscal year and, if not obligated on another order by September 30, 2010, could not be used for new requirements. As a result, the funding from the Barstow maintenance center that was to expire on September 30, 2010, was applied to the Albany order. The center carried over $7.6 million into fiscal year 2011 on this order and completed work on the order in March 2011.

- In planning the fiscal year 2011 workload, SMC expected to issue orders to MCLC for the Albany and Barstow maintenance centers to perform depot maintenance on 179 Logistics Vehicle Systems' front power units. In order to repair the vehicles, MCLC issued a commercial subcontract to the original equipment manufacturer to purchase cabs and other operating material and supplies needed to support work at the Albany and Barstow maintenance centers for the 179 vehicles. Subsequent to the subcontract being awarded, the Marine Corps maintenance strategy changed on the Logistics Vehicle Systems to reduce the need for the cabs purchased on the contract. In return, SMC (the customer) decided to decrease the scope of work from a planned 179 vehicles to 47 vehicles. Through May 2011, the MCLC accepted orders with amendments totaling $8.9 million to support work on the 47 vehicles. Because costs associated with terminating the contract with the original equipment manufacturer for the excess cabs and other operating material and supplies would be nearly as much as having the contractor complete the order, the Marine Corps decided to have the contractor complete the order and

transfer ownership of the excess cabs and other operating material and supplies to MCLC headquarters. In June 2011, MCLC informed SMC that $9.8 million, in addition to the $8.9 million provided earlier, would need to be returned in order to pay for the cost of the contracted cabs and other operating material and supplies ordered from the contractor and to complete work on the remaining 47 vehicles. On September 15 and 29, 2011, SMC issued amendments to fund the additional $9.8 million using fiscal year 2011 Marine Corps operation and maintenance funds that became available when other programs indentified excess funds that would expire on September 30, 2011. Because funding was provided late in the fiscal year, the centers carried over $9.4 million of the $18.7 million in orders on this program into fiscal year 2012. The orders are to be closed in fiscal year 2012 when deliveries from the contractor are complete and ownership of the excess cabs and other operating material and supplies are transferred to MCLC headquarters.

## Conclusions

Reliable carryover information is essential for Congress and DOD to effectively perform their oversight responsibilities, including reviewing and making well-informed decisions on the Marine Corps' DMAG budget. However, our review found that for the 8-year period from 2004 through 2011, the Marine Corps budgets show it underestimated the amount of new orders to be received from DMAG customers. As a result, while the Marine Corps budgets showed that DMAG's carryover would be under the allowable amount, subsequent Marine Corps financial records showed the actual reported carryover exceeded the allowable amount for the most recent 6 years. The carryover information can be a management tool for (1) controlling the amount of work that can carry over from one fiscal year to the next, and (2) identifying problems in other areas such as developing budgets on the amount of new orders for depot maintenance work. However, because the Marine Corps has underestimated the amount of new orders in its budgets, current reported data on carryover is of limited utility for decision-making purposes.

## Recommendations for Executive Action

We recommend that the Secretary of Defense direct the Secretary of the Navy and Commandant of the Marine Corps to take the following two actions to improve the budgeting and management of Marine Corps' DMAG carryover:

- Augment DMAG budget development and review procedures to require a comparison of recent years' trends in budgeted carryover amounts that are over or under the allowable amounts to the actual carryover amounts to identify any differences, reasons for any such differences, and make any appropriate adjustments to budget estimates on carryover.

- Augment DMAG budget development and review procedures to require a comparison of recent years' trends in budgeted orders to actual orders to identify any differences, reasons for any such differences (including work for which DMAG had not received letters of intent), and make any appropriate adjustments to budget estimates on new orders to be received from customers.

## Agency Comments and Our Evaluation

DOD provided written comments on a draft of this report. In its comments, DOD concurred with both of our recommendations and cited actions planned to address them. Specifically, the Office of the Under Secretary of Defense (Comptroller) stated that it will evaluate if actual year end carryover trends were included as a factor for the carryover estimates in the fiscal year 2014 budget. It stated that a review of the fiscal year 2012 actual carryover to the budgeted carryover will be part of the budget analysis including an evaluation of deviations from the allowable amount of carryover. Further, the Office of the Under Secretary of Defense (Comptroller) stated it will evaluate if customer order trends were included as a factor in developing customer order estimates in the fiscal year 2014 budget. It stated that a review of the fiscal year 2012 actual customer orders to the fiscal year 2012 budgeted customer orders will be part of the analysis.

While DOD concurred with the two recommendations in our draft report and commented on its plans to perform additional carryover and customer order trend analyses as part of the fiscal year 2014 budget process, DOD's comments did not clearly provide that it will augment its budgeting process to incorporate carryover and customer order trend analyses beyond the fiscal year 2014 budget process as we recommended. In discussing DOD's comments with Office of the Under Secretary of Defense (Comptroller) officials, they clarified that, in accord with the intent

of our recommendations, they intended to take the cited corrective actions to improve the DMAG budgeting for carryover and customer orders for all fiscal years beginning in fiscal year 2014. Specifically, they stated that DOD intended to ascertain how prior year DMAG carryover and new order trends were incorporated into the carryover estimates and use the data in evaluating Marine Corps DMAG budgets in not only the fiscal year 2014 budget, but in all future budgets.

We are sending copies of this report to the appropriate congressional committees. We are also sending copies to the Secretary of Defense; the Secretary of the Navy; and the Commandant of the Marine Corps. The report also is available at no charge on the GAO Web site at http://www.gao.gov.

Should you or your staff have any questions concerning this report, please contact me at (202) 512-9869 or khana@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

Sincerely yours,

Asif A. Khan

Asif A. Khan
Director, Financial Management
and Assurance

# Appendix I: Scope and Methodology

To determine if (1) the depot maintenance activity group (DMAG) reported actual carryover exceeded the allowable amount of carryover from fiscal years 2004 through 2011 and any actions the Marine Corps is taking to reduce carryover, and (2) budget information on DMAG carryover from fiscal years 2004 through 2011 approximated reported actual results, we obtained and analyzed DMAG reports that contained information on budgeted and reported actual carryover and the allowable amount of carryover for fiscal years 2004 through 2011. We analyzed carryover since fiscal year 2004 because prior to fiscal year 2004, DOD had a different policy for determining the allowable amount of carryover. We met with responsible officials from Navy and Marine Corps headquarters and the Marine Corps Logistics Command (MCLC) (Programs and Resources Department) to determine the reasons for significant variances between (1) reported actual carryover and the allowable amount or (2) budgeted and reported actual carryover. We also met with these officials to discuss the actions the Marine Corps has and is taking to reduce the amount of carryover.

To determine if there was growth in DMAG carryover during the period of Operation Iraqi Freedom/Operation Enduring Freedom (OIF/OEF) and the reasons for any such growth, we analyzed reported order, revenue, and carryover amounts and months of carryover from fiscal years 1998 through 2011 to determine the extent to which OIF/OEF impacted DMAG workload and carryover. We selected the period from fiscal years 1998 through 2011 to highlight any changes in reported actual carryover information from the period before and during OIF/OEF. We reviewed and analyzed Marine Corps documentation including the DMAG budgets to determine the reasons for the growth in carryover. Further, we met with responsible officials from MCLC (Programs and Resources Department) to discuss reasons for variances between reported actual carryover from one year to the next.

To determine the reasons for fiscal years 2010 and 2011 carryover, we met with responsible officials from the Navy and Marine Corps headquarters and MCLC (Programs and Resources Department) to identify contributing factors that led to the carryover. We also performed walkthroughs of the Albany and Barstow maintenance centers’ operations and discussed with officials reasons for workload carrying over from one fiscal year to the next for fiscal years 2010 and 2011. Further, in order to more fully understand the reasons for carryover at the maintenance centers, we obtained and analyzed 60 orders (30 orders for fiscal year 2010 and 30 orders for fiscal year 2011) that had the largest dollar amount of carryover. Carryover amounts associated with these orders

represented 49 percent and 68 percent of DMAG's total carryover for fiscal years 2010 and 2011, respectively. We selected 60 orders because they were the largest and most recent orders at the time of our audit. We reviewed the orders with amendments for each of the orders and discussed the information in these documents with MCLC (Programs and Resources Department) and maintenance center Albany and Barstow officials to determine the reasons for the carryover. We summarized and categorized the results.

Financial information in this report was obtained from official Navy and Marine Corps budget documents and accounting reports. To assess the reliability of the data, we (1) reviewed and analyzed the factors used in calculating carryover for the completeness of the elements included in the calculation, (2) interviewed Navy and Marine Corps officials knowledgeable about the carryover data, (3) reviewed GAO reports on depot maintenance activities, and (4) reviewed fiscal years 2010 and 2011 customer orders submitted to DMAG to determine whether they were adequately supported by documentation. In reviewing these orders, we obtained the status of the carryover at the end of the fiscal year. On the basis of procedures performed, we have concluded that these data were sufficiently reliable for the purposes of this report. We performed our work at the Headquarters of the Office of the Under Secretary of Defense (Comptroller), the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), and Marine Corps Deputy Commandant (Programs and Resources), Washington, D.C.; Marine Corps Logistics Command, Albany, Georgia; the maintenance center at Albany, Georgia and the maintenance center at Barstow, California. We conducted this performance audit from July 2011 through June 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Comments from the Department of Defense

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

MAY 16 2012

Mr. Asif A. Khan
Director
Financial Management and Assurance
Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Khan:

This is the Department of Defense (DoD) response to the GAO draft report (GAO-12-539), "MARINE CORPS DEPOT MAINTENANCE: Budgeting and Management of Carryover Could Be Improved," dated April 16, 2012, (GAO Code 197100). Comments on the draft report recommendations are included in the enclosure.

Actions to improve the budgeting for and management of carryover noted in the draft report are underway.

Sincerely,

John P. Roth

Enclosure:
As stated

GAO DRAFT REPORT DATED APRIL 16, 2012
GAO-12-539 (GAO CODE 197100)

"MARINE CORPS DEPOT MAINTENANCE: BUDGETING AND MANAGEMENT OF CARRYOVER COULD BE IMPROVED"

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Secretary of the Navy and Commandant of the Marine Corps to augment the Depot Maintenance Activity Group (DMAG) budget development and review procedures to require a comparison of recent years' trends in budgeted carryover amounts to identify any differences, reasons for any such differences, and make any appropriate adjustments to budget estimates on carryover (p. 29).

DOD RESPONSE: Concur. The Office of the Under Secretary of Defense (Comptroller) will evaluate if actual year end carryover was included as a factor for the FY 2014 budget. Discussions will be held during the review process to ascertain how prior year trends were incorporated into the carryover estimates which also include documented customer requirements and Overseas Contingency Operations. In addition, a review of the FY 2012 actual carryover to the FY 2012 budgeted carryover will be part of the budget analysis to include an evaluation of deviations from allowable ceilings.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Secretary of the Navy and Commandant of the Marine Corps to augment DMAG budget development and review procedures to require a comparison of recent years' trends in budgeted orders to actual orders to identify any differences, reasons for any such differences (including work for which DMAG had not received letters of intent), and make any appropriate adjustments to budget estimates on new orders to be received from customers.

DOD RESPONSE: Concur. The Office of the Under Secretary of Defense (Comptroller) will evaluate if actual year end customer order trends were included as a factor for the FY 2014 budget. Discussions will be held during the review process to ascertain how these prior year trends were incorporated into the customer order estimates in relation to documented current and future funded workload; and how much in customer orders is attributable to workload without letters of intent. In addition, a review of the FY 2012 actual customer orders to the FY 2012 budgeted customer orders will be part of the analysis.

# Appendix III: GAO Contact and Staff Acknowledgments

## GAO Contact

Asif A. Khan, (202) 512-9869 or khana@gao.gov

## Staff Acknowledgments

In addition to the contact named above, Greg Pugnetti, Assistant Director; Steve Donahue; Keith McDaniel; and Hal Santarelli made key contributions to this report.

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